

**Date**  
31<sup>st</sup> October 2017

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**Cadent's response to 'Consultation on Delivering Faster and More Reliable Switching:  
proposed new switching arrangements'**

Dear Rachel,

Thank you for the opportunity to respond to Ofgem's consultation on Delivering Faster and More Reliable Switching: proposed new switching arrangements. Cadent is a gas distribution company providing gas to 11 million homes and business through 130,000km of pipelines. We own and operate four regulated gas distribution networks covering a geographically defined service territory that spreads across the East of England, North London, the North West and the West Midlands. This response is made on behalf of Cadent and can be published by Ofgem.

Cadent is supportive of Ofgem's proposed package of reforms to facilitate faster and more reliable energy supplier switching by consumers. In particular we agree that flexible, harmonised dual-fuel processes and systems are likely to improve reliability through the reduction of complexity and better management and oversight of industry data.

As a Gas Transporter, Cadent is to some extent on the periphery of the Supplier/Shipper switching process although there are some important 'touch points' relevant to the Gas Transporters Licence and Uniform Network Code (UNC), for example capacity referrals predominantly relevant to the Industrial and Commercial market. We are also an important contributor to data quality which is of course instrumental to facilitating a smooth supplier transfer. This is particularly relevant to Supply Point address/Meter Point Reference Number (MPRN) data.

With respect to this we suggest that an important consideration would be to review and update where necessary GT Licence Standard Condition 31 'Supply Point Information Service' to ensure consistency with the notion of a dual fuel system and address database.

We agree that the preferred reform package (RP2a) represents a practical and cost effective balance of arrangements featuring the CSS but retaining DES and ECOES for data enquiry purposes.

We are broadly supportive of the implementation approach and note the references to transition, testing, co-ordination and assurance.



We agree with Ofgem's proposal to create a dual fuel Retail Energy Code (REC) to govern the new switching processes and note the potential REC scope.

With regard to the effect on existing codes, Cadent has raised UNC 'Request Proposal' 0630R 'Review of the consequential changes required in UNC as a result of the Ofgem Switching Programme'<sup>1</sup>. The purpose of this is at an early stage to identify and review the effects of Ofgem's switching proposals on the UNC. We anticipate the Workgroup providing a comprehensive report to the UNC Modification Panel in May 2018.

We concur with Ofgem that the Code 'ownership' and maintenance obligations should be incumbent on Gas and Electricity Suppliers. We also agree with Ofgem's comment in section 8.20 'Network Operators' that "we do not consider that it would be appropriate to introduce a new obligation to own and maintain the REC". However, we anticipate a need to review and possibly revise our present GT Licence obligations contained within SSC A11 for UNC and SC14 for the Supply Point Administration Agreement (SPAA). We note that in the longer term responsibilities might fall on a new category of licensee subject to the outcome of the CMA Code Governance review concerning the need for new legislation.

We agree with Ofgem's observations regarding funding of the REC and in particular that the majority of funding would come from energy suppliers. However we note that in paragraph 8.27 Ofgem states "noting that network operators currently provide funding to SPAA Ltd....." This is erroneous. At this present time Gas Distribution Networks [GDNs] do not fund SPAA. Consequently, given the anticipated limited role of GDNs in REC, we do not envisage a funding responsibility.

With respect to funding of the CSS, we note Ofgem's intention to modify the DCC licence to allow the continuing use of the existing funding framework.

Please find below our response to the individual questions set out in the consultation.

Please contact me should you wish to discuss any aspect of this consultation response.

Yours sincerely

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Industry Codes Manager

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<sup>1</sup> [UNC Request Proposal 0630R.pdf](#)



Continuation sheet

Questions:

CHAPTER: Two

Question 1: Do you agree with our assessment that RP2a provides the best value option to reform the switching arrangements for consumers and with the supporting analysis presented in this consultation and the accompanying IA?

We agree that RP2a on balance appears to be the most cost effective of the solution options to deliver fully on Ofgem's programme objectives.

CHAPTER: Three

Question 2: Do you agree that CSS should include an annulment feature which losing suppliers can use to prevent erroneous switches? Please provide evidence alongside your response. If you are a supplier, please support your answer with an estimate of the number of occasions over the past 12 months when you might have used such a feature had it been available.

We understand and agree that Annulment is required to help prevent erroneous transfers. However given that a losing supplier could stop a switch we believe it necessary that robust governance / powers of audit provisions would need to be in place.

Question 3: Do you agree that CSS should always invite the losing supplier to raise an objection, even where the Change of Occupancy (CoO) indicator had been set by the gaining supplier? If you are a supplier, please support your answer with evidence of the number of times in the past 12 months that you have raised an objection where the Change of Tenancy (CoT) flag had been set.

We would observe that this is the manner in which the present UNC process operates with respect to the Shipper User, but otherwise regard this as a matter for suppliers to comment upon.

Question 4: Do you agree that use of the annulment and CoO features should be backed by a strong performance assurance regime? Please comment on ways in which such a regime could be made most effective and back up your response with evidence.

We agree, particularly concerning annulment which should be have very specific 'use of rules' around it within the REC; for example by monitoring market share against the extent of use of the facility. Also we envisage requirements for the retention of records. We note the Supplier Licence Conditions (14/14A) already seem fairly stringent in this area.

CHAPTER: Four

Question 5: Do you agree with our proposal to require DCC to competitively procure the communications network capability required to deliver the new switching arrangements?

While Cadent supports a competitive procurement should this be necessary, it is unclear why the relevant network capability could not be accommodated on an existing industry network. For example, the Information Exchange (IXn) network presently in widespread use for UNC file transactions represents a well proven and secure technology.

CHAPTER: Five

Question 6: Do you agree with our proposal to have a three-month transition window (aiming to protect reliability) during which time suppliers have to meet additional requirements if switching in less than five working days? Please support your answer with evidence.

We would challenge whether 3 months would be sufficient even to gather supporting information and statistics which would then require analysis.

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Question 7: Do you agree with our proposal to change the requirement on speed of switching to require switches to be completed within five working days of the contract being entered into (subject to appropriate exceptions)? Please support your answer with evidence.

We agree with the five working day timescale reducing to 'next day' switching. We note that mistakes may be made, but that there is the ability for these to be rectified quickly. This is notwithstanding that erroneous transfers may endure for weeks and months and would have the same issues, irrespective of the switching speed.

CHAPTER: Eight

Question 8: Do you agree with our proposal to create a dual fuel REC to govern the new switching processes and related energy retail arrangements?

Cadent agrees that a new dual fuel REC represents the most practical and logical mechanism to govern the CSS. We note that this would over time replace SPAA which we believe to be an appropriate measure. We believe that to leave terms pertaining to switching activity in existing codes could give rise to a risk of dual governance. We are sympathetic to Ofgem's comment in Paragraph 8.18 that "Potentially [the REC] could be expanded over time to consolidate all retail market activity". However, perhaps worthy of consideration is an option that the SPAA could be eliminated in its entirety and content moved to the REC as an integral part of the programme, although we recognise that this could increase its scope and scale.

Question 9: Do you agree with the proposed initial scope and ownership of the REC to be developed as part of the Switching Programme?

We agree that this seems a logical and appropriate approach. There may be an opportunity to undertake some 'tidying' of codes to remove anomalies and conflicts (such as Data Enquiry defined in SPAA but delivered through the Data Services Contract (DSC)).

Question 10: Do you agree with our proposal to modify the DCC's licence, in order to extend its obligation to include the management and support of the DBT and initial live operation of the CSS?

We are supportive of this proposal.

Question 11: Do you agree that there should be regulatory underpinning for the transitional requirements and that this should be contained in the REC?

We agree but it may be prudent to impose restrictions on using the new system until the relevant REC party, principally the Supplier is ready. We are uncertain whether financial sanction or licence remedies would be justified or achievable for what should be for a period of 12 – 18 months. However, we recognise there is likely to be merit in the inclusion of relevant terms to licence/Code to ensure performance.

Question 12: Do you agree that we should pursue an Ofgem-led SCR process in accordance with a revised SCR scope?

We are aware of the unusual nature of arrangements where the Regulator leads on raising, development and approval of Code Modifications, which in normal circumstances goes outside of the normal course of events pertaining to code governance. However, on this occasion we accept Ofgem's proposal to adopt Option 3 'Ofgem leads an end to end process to develop the code modification(s) including provision of legal text'. We agree having centralised oversight seems prudent given the complexity of the arrangements and the need to co-ordinate development of the new code and amendment of existing codes. One observation is that while the REC drafting could be centrally produced, it may be preferable that the consequential effects on each Code be developed under their own established code governance (including legal text production).

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Question 13: Do you have any comments on the indicative timetable for the development of the new governance framework?

We have no comments on the proposed timetable at this stage other than the dates and lead times appear reasonable given the scale of change necessary. We would suggest that early development and sight of relevant legal drafting would be beneficial in shaping the REC and associated Codes.

We note that in Section 8 paragraph 8.27 Ofgem states "...noting that network operators currently provide funding to SPAA..." This is incorrect in that network operators do not fund SPAA and indeed in March 2011, Ofgem rejected a supplier originated SPAA change proposal CP09/146: 'Changes to SPAA Funding'<sup>2</sup> requiring Transporters to fund SPAA.

In its rejection letter Ofgem stated "We consider that any GT contribution should be quantified and proportionate to the benefits they gain. However, there is no evidence within the proposal or elsewhere to suggest that the GTs benefit equates to around one third of the SPAA's funding".

Noting our comments above regarding the extent of GT involvement in switching activity we see no reason for this position to be changed with respect to the REC.

Impact Assessment: CHAPTER 3

Question 1: Do you agree that our assessment of industry and public sector costs, including our approach to managing uncertainty, provides a sound basis for making a decision on a preferred reform package?

Yes.

Question 2: Do you agree that we have selected the appropriate policy option around objections, cooling off, meter agent appointment and MCP ID for each reform package?

As this is a supplier to supplier matter we have elected not to reply to this question.

Impact Assessment: CHAPTER 4

Question 3: Do you agree that our assessment of the direct benefits of the reforms, including the various assumptions that we have adopted, provides a sound basis for making a decision on a preferred reform package?

Yes

Impact Assessment: CHAPTER 5

Question 4: Do you agree that our illustrative analysis of the indirect benefits provides a reasonable assessment of the potential scale of the savings that could be made by consumers through increased engagement in the market?

Yes

Impact Assessment: CHAPTER 6

Question 5: Do you agree with our assessment of the wider benefits of our reform proposals?

Yes

Impact Assessment: CHAPTER 7

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<sup>2</sup> [https://www.spaa.co.uk/CP\\_09/146.aspx](https://www.spaa.co.uk/CP_09/146.aspx)



Question 6: Do you agree that our assessment of the net impacts for consumers provides a sound basis for making a decision on a preferred reform package?

Yes